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Puerto Rico Left Adrift by Washington as Bankruptcy Bills Stall.

As California risked being locked out of the credit markets during the recession, officials sought federal loan guarantees to avert deep spending cuts that threatened to cascade through the biggest U.S. state.

Washington turned them away.

Six years later, as a Puerto Rico agency veers toward a default as soon as Aug. 1, federal officials in the nation's capital have echoed a refrain heard during recent state and local fiscal crises: Fix the problem on your own.

President Barack Obama's administration and the Federal Reserve have said it's up to Congress to decide how to assist the island as it struggles with \$72 billion of debt. Yet on Capitol Hill, Puerto Rico's push to allow some agencies to file for bankruptcy has stalled. Efforts to find a Republican to co-sponsor the legislation haven't borne fruit.

"Federal authorities seem to be taking the position that the only possible options are the extremes of a bailout or nothing at all," said Arturo Estrella, a former Federal Reserve Bank of New York economist.

Puerto Rico has been moving toward the largest restructuring ever in the \$3.6 trillion municipal-bond market since last month, when Governor Alejandro Garcia Padilla said the commonwealth can't afford to pay its debts. The securities have tumbled amid speculation over how much investors stand to lose as his administration moves to draw up a restructuring proposal by Sept. 1.

Default Probability

The island may miss a \$36.3 million principal payment on Public Finance Corp. bonds due on Aug. 1 because the legislature didn't allocate the money. Standard & Poor's called a default on the securities a "virtual certainty," while Moody's Investors Service said the probability of a Puerto Rico default is approaching 100 percent. The Puerto Rico Electric Power Authority, the island's main power provider, is also in talks with creditors over its \$9 billion debt load.

Investors shouldn't expect any new help from Washington, said Daniel Solender, who oversees \$17 billion as head of municipal debt at Lord Abbett & Co. in Jersey City, New Jersey.

"There's no real sign of any move towards helping them other than conversations," Solender said. "But that's not solving the problem."

Federal Help

Puerto Rico has more debt than any state but California and New York from years of borrowing as the economy struggled to grow and residents left for the U.S. mainland. Its bonds are widely held by American investors and mutual funds because they're exempt from income taxes and pay higher

yields than other securities.

Federal intervention wouldn't be unprecedented. Washington helped to rescue New York in the 1970s, and it put a control board in charge of the District of Columbia's finances in the 1990s.

So far, the U.S. hasn't taken a central role. The Treasury Department has been holding discussions with Puerto Rico for more than two years, according to Melba Acosta, president of the Government Development Bank, which works on the island's debt sales. Treasury officials have pushed the commonwealth to come up with a long-term plan to steady its finances and back giving agencies the power to file for bankruptcy, just as U.S. cities and government-run corporations can.

Ignoring Pleas

Washington has rarely shown interest in rescuing local governments.

Officials declined to provide aid to Jefferson County, Alabama, as soaring debt bills pushed it toward bankruptcy after credit markets seized up. Cities including Philadelphia unsuccessfully sought a share of the bailout money for Wall Street banks, and a 2009 request by then California Treasurer Bill Lockyer for it to backstop short-term debt was rebuffed.

When Detroit's record bankruptcy threatened to slash workers' retirement checks, even then U.S. Senator Carl Levin, a Michigan Democrat, said the city shouldn't receive a bailout.

Estrella, the former New York Fed economist, said the steps Washington has taken so far have done little to help.

The advice "that the White House said the Treasury has shared with Puerto Rico officials over the last year or two has clearly been ineffectual," he said.

There's been no will to make helping Puerto Rico a priority in Congress, said Brandon Barford, a partner at Beacon Policy Advisors LLC. He said the Treasury can't provide a loan guarantee through the Federal Financing Bank without approval from Congress.

Feeling Abandoned

The Obama administration and key Democrats have supported extending Chapter 9 bankruptcy protection to Puerto Rico. The legislation has yet to advance, and Republicans including Representative Darrell Issa have questioned whether changing the law is fair to investors who thought their bonds were exempt from the risk of being adjusted in court.

Alberto Baco Bague, Puerto Rico's secretary of economic development, told Spain's El Mundo newspaper that Washington has shown little interest in helping.

"One never loses hope, but they've been very negative," he said in an interview published this week.

"As U.S. citizens, we feel very abandoned by Washington," he said. "At the highest levels, the United States has more interest in Greece and in Cuba. And neither of those are U.S. territories."

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by Michelle Kaske & Kasia Klimasinska

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